

Public Document Pack

Mid Devon District Council

Audit Committee

Tuesday, 28 June 2016 at 5.30 pm
Exe Room, Phoenix House

Those attending are advised that this meeting will be recorded

Membership

Cllr R Evans (Chairman)
Cllr Mrs J B Binks
Cllr Mrs C Collis
Cllr R M Deed
Cllr T G Hughes
Cllr F W Letch
Cllr R F Radford

A G E N D A

Members are reminded of the need to make declarations of interest prior to any discussion which may take place

1. **Apologies**

To receive any apologies for absence.

2. **Public Question Time**

To receive any questions relating to items on the Agenda from members of the public and replies thereto.

3. **Chairman's Announcements**

To receive any announcements that the Chairman may wish to make.

4. **Minutes of the previous meeting** (*Pages 5 - 10*)

To approve as a correct record the Minutes of the meeting held on 31 May 2016 (copy attached).

5. **Internal Audit Progress Report** (*Pages 11 - 20*)

To receive a report from the Internal Audit Team Leader updating the Committee on the work performed by Internal Audit for the 2016/17 financial year.

6. **Internal Audit Reports**

Committee to discuss any issues arising from any Audit reports they have received since the last meeting. During discussion of this item it **may** be necessary to pass the following resolution to exclude the press and public having reflected on Article 12 12.02(d) (a presumption in favour of openness) of the Constitution. This decision may be required because consideration of this matter in public may disclose information falling within one of the descriptions of exempt information in Schedule 12A to the Local Government Act 1972. The Committee will need to decide whether, in all the circumstances of the case, the public interest in maintaining the exemption, outweighs the public interest in disclosing the information.

ACCESS TO INFORMATION ACT – EXCLUSION OF THE PRESS AND PUBLIC

RECOMMENDED that under section 100A(4) of the Local Government Act 1972 the public be excluded from the next item of business on the grounds that it involves the likely disclosure of exempt information as defined in section 100I and paragraph 3 of Part 1 of Schedule 12A of the Act, namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

(Please note: This is a standing item which may not be needed should discussion have taken place regarding internal audit reports under the previous item on the agenda)

7. **Changes to arrangements for appointment of external auditors**
(Pages 21 - 26)

To receive a report from the Audit Team Leader summarising the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.

8. **External Audit update - verbal update on progress with the 2015/16 audit**

To receive a verbal update from Grant Thornton on progress in delivering their responsibilities as the Council's external auditors.

9. **Start time of the next meeting**

To agree a start time for a possible Special Meeting on Friday 15 July 2016.

10. Identification of items for the next meeting

Members are asked to note that the following items are already identified in the work programme for the next meeting:

- Annual Governance Statement (final version for sign off)
- Annual Report and Accounts for 2015/16 (final version for sign off)

Note: This item is limited to 10 minutes. There should be no discussion on the items raised.

Stephen Walford
Chief Executive
Monday 20 June 2016

Anyone wishing to film part or all of the proceedings may do so unless the press and public are excluded for that part of the meeting or there is good reason not to do so, as directed by the Chairman. Any filming must be done as unobtrusively as possible from a single fixed position without the use of any additional lighting; focusing only on those actively participating in the meeting and having regard also to the wishes of any member of the public present who may not wish to be filmed. As a matter of courtesy, anyone wishing to film proceedings is asked to advise the Chairman or the Member Services Officer in attendance so that all those present may be made aware that is happening.

Members of the public may also use other forms of social media to report on proceedings at this meeting.

Members of the public are welcome to attend the meeting and listen to discussion. Lift access the first floor of the building is available from the main ground floor entrance. Toilet facilities, with wheelchair access, are also available. There is time set aside at the beginning of the meeting to allow the public to ask questions.

An induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, or if you would like a copy of the Agenda in another format (for example in large print) please contact Sarah Lees on:

Tel: 01884 234310
E-Mail: slees@middevon.gov.uk

Public Wi-Fi is available in all meeting rooms.

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MID DEVON DISTRICT COUNCIL

MINUTES of a **MEETING** of the **AUDIT COMMITTEE** held on 31 May 2016 at 5.30 pm

Present

Councillors Mrs J B Binks, Mrs C Collis, R M Deed, R Evans, T G Hughes, F W Letch and R F Radford

Also Present

Councillors C J Eginton and B A Moore

Present

Officers Stephen Walford (Chief Executive), Andrew Jarrett (Head of Finance), Catherine Yandle (Internal Audit Team Leader) and Sarah Lees (Member Services Officer)

Also in

attendance G Daly (Grant Thornton)

1. **ELECTION OF CHAIRMAN (VICE CHAIRMAN OF THE COUNCIL IN THE CHAIR)**

RESOLVED that Cllr R Evans be elected Chairman of the Committee for the municipal year 2016/17.

2. **ELECTION OF VICE CHAIRMAN**

RESOLVED that Cllr F W Letch be elected Vice Chairman of the Committee for the municipal year 2016/17.

3. **APOLOGIES**

There were no apologies for absence.

4. **PUBLIC QUESTION TIME**

There were no members of the public present.

5. **CHAIRMAN'S ANNOUNCEMENTS (00:06:59)**

The Chairman stated that he had made enquiries as to the situation regarding Audit Committee substitutes. He informed the Committee that Cllr B A Moore would be the substitute for the Conservative group and Cllr R Wright would be the substitute for the Liberal Democrats. He requested that Cllr R M Deed contact his Ungrouped colleagues to see if a substitute could be found should he ever be unable to attend a future meeting.

6. **MINUTES OF THE PREVIOUS MEETING (00:08:18)**

The minutes of the meeting held on 15 March 2016 were approved as a correct record and **SIGNED** by the Chairman.

7. INTERNAL AUDIT OUT-TURN REPORT FOR 2015/16 (00:09:10)

The Committee had before it, and **NOTED**, a report from the Internal Audit Team Leader updating it on the work performed by Internal Audit during the 2015/16 financial year.

It was explained that with regard to overdue audit recommendations the position overall had improved tremendously. This time last year 46% of recommendations on 'open' audits were overdue compared to 25% this year. It was the opinion of the Internal Audit Team Leader that the Council's control environment had been, on the whole, adequate and effective in the 2015/16 financial year. Throughout the year four audits had been identified as being poorly controlled but in each area progress had been made since the audit opinion had been issued.

Discussion took place with regard to:

- The need for service managers to prioritise training plans as soon as possible.
- What the main challenges were for internal audit. It was explained that certain situations were more challenging than others and an example was provided of a new manager with no handover period being one. Another was the area of Procurement which was described as being extremely complex and time consuming. A lot of different service managers needed to be trained to use the system.
- The definition of an 'adequate' audit opinion, in some cases Members may not agree with this assessment. The Internal Audit Team Leader stated that it would be useful to have input from Committee Members when she presented her Audit Plan in January regarding this issue.
- All service areas needed to be encouraged to return their surveys after an audit had been completed as they provided useful feedback to the Internal Audit Team.

In conclusion the Chairman thanked the Internal Audit Team for the work that they did. He was pleased to see the number of outstanding audit recommendations continuing to reduce as this was a particular area of focus for this Committee and it would continue to monitor the situation.

Note: * Report previously circulated; copy attached to the signed minutes.

8. INTERNAL AUDIT REPORTS (00:26:57)

It was explained that since the last meeting three internal audits for 2015/16 had been circulated to members of the Committee. These related to Corporate Health and Safety, Main Accounting System and Procurement.

Discussion took place with regard to the Procurement audit:

- Trying to achieve 'best value for money' ought to be the cornerstone of all procurement decisions.
- It was confirmed that any purchases over £1k needed to have three quotes and anything over £50k needed to involve a tendering process. Difficulties were encountered where there may not be three suppliers for a certain product or service.

- There was continued disappointment that some samples taken during the audit had failed to show that three quotes had been obtained for some orders between £1k and £50k.
- Managers are receiving training designed to assist them in managing their budgets with professional advice from Finance and Internal Audits. This would include an emphasis on needing to comply with the financial regulations and the imperative need to achieve best value for money.
- Difficulties encountered when several service managers order from the same supplier taking the overall order total over the threshold, Managers needed to be reminded to check with Procurement and adhere to the financial regulations at all times.
- It was confirmed that the outstanding audit recommendation from 2013 would be resolved by the end of this financial year.

Hard copies of internal audit reports would be sent to those Members of the Committee requesting them. The alternative was to save the document electronically.

Note: The discussion regarding this item had been held in open session; there had been no need to move into Part II.

9. **PERFORMANCE AND RISK OUT-TURN REPORT FOR 2015/16 (00:43:45)**

The Committee had before it, and **NOTED**, a report * from the Head of Communities and Governance providing it with an update on performance against the 2010-15 Corporate Plan and local service targets for 2015-16 as well as providing an update on the key business risks.

The contents of the report were outlined with discussion taking place with regard to the following areas:

- It was pleasing to note that the backlog of food premises inspections was reducing due in part to the recruitment of an Environmental Health Officer.
- Cllr Mrs J Binks urged the Committee to take note of the report produced by the Reviewing the Cost of Efficiencies Working Group, particularly the section regarding the leisure centres which went to Scrutiny on 23 May 2016.
- The subject of 'asbestos' would remain as a potential risk within the report as it was impossible to eliminate it 100%. Any development of a non housing asset would be subject to an inspection and thorough risk analysis prior to the commencement of any works.
- Risk and insurance liability when undertaking grass cutting work on behalf of Devon County Council. Cllr R F Radford, as Chairman of the Managing the Environment Policy Development Group (PDG), requested that clarification regarding the matter be sought and brought to the PDG's attention if necessary.

Note: * Report previously circulated; copy attached to the signed minutes.

10. **ANNUAL GOVERNANCE STATEMENT (01:01:25)**

The Committee had before it, and **NOTED**, a report * from the Head of Communities and Governance presenting the Committee with the draft Annual Governance Statement and accompanying action plan.

It was explained that the document was currently in a draft format and following any feedback from Members of the Committee a finalised version would be brought to the July meeting to be signed off in conjunction with the financial accounts.

Note: * Report previously circulated; copy attached to the signed minutes.

11. **ANNUAL REPORT AND ACCOUNTS 2015/16 (01:06:26)**

The Committee had before it, and **NOTED**, the draft Annual Report and Accounts for 2015/16.

The Head of Finance stated that the draft accounts had been completed ahead of schedule and that the external auditors would be on site the following day to commence their audit. He requested that the Committee hold a special meeting on 15 July to sign off the accounts should the external auditors be in a position to issue their opinion.

Reference was made to a summary within the report showing a list of all available reserves, illustrating that the Council had finished the year in a strong position. It was explained that not many technical changes had been made to the accounts, however, they had been made to look more like private sector accounts with an opening forward containing the key messages.

Discussion took place with regard to:

- The good performance in the area of Council Tax and Business Rate collection with the Council being in the top quartile nationally for collection rates.
- The move to Universal Credit would have an effect upon the Housing Revenue Account.
- The Head of Finance was monitoring whether or not the closure of the Crediton office would have a significant effect upon rent collection, at the moment the effect was minimal.
- Useable reserves continued to remain at the level agreed by full Council.
- Earmarked HRA reserves would be used for new housing and keeping the current stock up to a decent standard.
- The Council had made some investments which were proving to be financially beneficial.
- More commercial activity involved a greater element of risk and this needed to be weighed up before entering any new venture.

The Committee congratulated the Head of Finance and his team on producing a set of draft accounts that were readable, understandable and easily read in electronic format.

Note: * Report previously circulated; copy attached to the signed minutes.

12. **EXTERNAL AUDIT UPDATE (01:24:13)**

The Committee had before it, and **NOTED**, a report from Grant Thornton providing an update on delivering their responsibilities as the Council's external auditors.

It was explained that subject to finding any significant errors within the accounts the external auditors were on track to issue their opinion on the accounts in time for the proposed meeting on 15 July.

It was explained that the external auditors would be looking at the Council's plans for joint ventures and partnership arrangements as they needed to understand where the Council saw itself in two or three years time. The Committee were referred to a publication regarding partnership working in the mental health sector which had important implications for leisure centres, council housing and libraries.

Note: * Report previously circulated; copy attached to the signed minutes.

13. **SPECIAL MEETING TO SIGN OFF THE ACCOUNTS (01:28:30)**

The Chairman stated that the key to being able to sign off the financial accounts had been whether or not the external auditors would be in a position to issue their opinion as well as the draft accounts being ready in time. The external auditors had confirmed, subject to any significant errors being identified in the accounts, they would be able to meet the proposed timescale. It was therefore **AGREED** that a special meeting be held on 15 July to sign off the accounts and the Annual Governance Statement. It was also **AGREED** that all other scheduled meetings remain in place.

Therefore the following Audit Committee meetings would take place over the next two months:

- 28 June at 5.30pm
- 15 July (to commence at a time to be decided on 28 June)
- 26 July at 5.30pm

14. **START TIME OF MEETINGS (01:38:10)**

It was **AGREED** to continue to meet at 5.30pm on Tuesday evenings.

15. **IDENTIFICATION OF ITEMS FOR THE NEXT MEETING (01:38:53)**

The following items were requested to be on the agenda for the next meeting on 28 June 2016:

- Internal Audit Progress Report
- Internal Audit Charter
- Appointment of new External Auditors
- Financial Contract and Procedure Rules
- Start time for the Special Meeting on 15 July 2016

(The meeting ended at 7.10 pm)

CHAIRMAN

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AUDIT COMMITTEE 28 JUNE 2016

INTERNAL AUDIT PROGRESS REPORT

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader, Catherine Yandle

Reason for Report: To update the Committee on the work performed by Internal Audit for the 2016/17 financial year.

RECOMMENDATION(S): The Committee notes the contents of this report.

Relationship to Corporate Plan: Effective Internal Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications: None arising from the report

Legal Implications: None arising from the report

Risk Assessment: The role of Internal Audit is providing assurance that the risk management and internal control framework are operating effectively.

1.0 Introduction

1.1 The four-year strategic audit plan for 2016/17 to 2019/20 and annual work plan for 2016/17 were presented to the Audit Committee at its meeting on 15 March 2016, where they were approved.

1.2 The purpose of this report is to provide the Committee with a progress report on performance against the 2016/17 Internal Audit work plan for the period from 1 April 2016 to 31 May 2016.

2.0 Progress to date and scope of audit activities

2.1 The Audit Plan is split into the following sections:

- Core Audits
- Systems Audits
- Other Work (including fraud/ irregularity/ consultancy/contingency)

2.2 Core Audits

2.2.1 The Core Audits are given priority as they either cover the Council's key financial controls or the level of income is material in the context of the Council's annual accounts. These audits are allocated a larger number of days, as part of the risk based audit planning process, so they are carried out annually. Trade Waste and Car Park Income are carried out biennially for the same reason.

2.2.2 The Core audits are not scheduled to start until the autumn.

2.3 Systems Audits

2.3.1 Systems Audits have been completed for Refuse & Recycling, Stores and Data Protection & Information Security. The opinions for these are included in full in section 3 below.

2.3.2 Work is almost complete on Cemeteries & Bereavement Services, Private Sector Housing and Standby.

2.4 Other Work

2.4.1 The Internal Audit team report on performance and risk using the Spar system and present the quarterly corporate performance and risk reports to PDGs and Committees.

2.4.2 Data quality checks are carried out on committee and other reports as requested. Tender documents have been verified as usual.

2.4.3 The Audit Team have assisted with 1 investigation and sat on 1 job evaluation panels so far this year. Training needs are being reviewed as part of this year's budget setting exercise.

2.4.4 The Audit Team Leader attends the Corporate Health & Safety Committee as Risk Advisor. The 2 Auditors attend the ICT and Procurement User groups.

2.5 Performance Indicators

2.5.1 As at the end of May 2016 the Internal Audit PIs are as follows:

	Current	Target
Core	0%	0%
System	26%	26%

2.5.2 Three post-audit surveys were sent out; all have been returned and were scored by the client as 4-5 for all questions, meaning they were satisfied or very satisfied with the process, which is excellent.

3.0 **Audit Opinions**

The following opinions have been issued so far this year:

3.1 **Refuse & Recycling**

3.1.1 The area of refuse and recycling seems to be well managed and have good processes and procedures in place for areas such as safe systems of work and driver licence checking using an outside company. The website page provides a lot of information for members of the public which is informative and up to date. Recycling awareness is also promoted by carrying out talks to groups e.g. WI etc.

- 3.1.2 The introduction of charging for garden waste and changes to food/recycling and rounds has all been implemented really well. Income for 2015/16 has increased slightly on the previous 2 years.
- 3.1.3 There are a couple of areas where weakness was found and improvement is required. At present there is not a good record of training that has been carried out by members of staff, the person responsible for this area is no longer with the Council and it is important that this duty is re-allocated to improve the current process. Also there doesn't seem to be a service level agreement for implementing assisted collections.
- 3.1.4 It is the overall opinion of the auditor that the Refuse and Recycling system is adequately controlled.

Summary of Recommendations		
High	Medium	Low
0	1	2

3.2 Stores

- 3.2.1 Stores use the Orchard system for the control of stock. Booking stock in and out, issuing stock as requested for specific jobs, consumables or van stock. Stocks of PPE and cleaning products are also kept and issued to members of staff in other Council services who require these items.
- 3.2.2 There are automated interfaces in place which transfer information from Orchard to e-Procurement and e-Financials. The handheld device used to book the items out to jobs is also interfaced with Orchard. There seems to be good control of stock with little intervention to stock lines. The Stores Supervisor runs a regular report for re-order levels of stock to ensure items are replenished at suitable intervals and a lot of work has been carried out to improve the tidiness and layout of stores to achieve more efficient processes/use of time.
- 3.2.3 There are still some obsolete and very low usage stock items held in stores, which need to be disposed of, (or at least reduced in quantity), in accordance with the Financial Regulations.
- 3.2.4 An area of improvement would be to have procedure notes in place as a measure to cover unexpected absences.
- 3.2.5 It is the overall opinion of the auditor that the stores system is well controlled.

Summary of Recommendations		
High	Medium	Low
0	1	1

3.3 Data Protection & Information Security

- 3.3.1 As part of the ongoing channel shift agenda, customers of MDDC are being encouraged to do more things online, such as updating personal information and completing forms on line to enable the council to streamline services and

make them more efficient. The Council's Website has been updated since the previous Audit in 2014 to address this. With the increase in online activity the provisions of the Data Protection Act 1998 and principles of information security are an integral part of the process, so that customers can be assured that their information is kept securely and used appropriately.

- 3.3.2 The Council's Data Protection Policy (DPP) has recently been updated (January 2016) in line with the policy review program, and all employees and Councillors are required to read and accept this policy.
- 3.3.3 As a 'data controller' Mid Devon District Council and Councillors are required to be registered with the Information Commissioner; it was confirmed that MDDC and all the Councillors were registered.
- 3.3.4 However, there are still some Councillors who have not yet completed the Council's on-line Data Protection Policy course. As data controllers, they have responsibilities for personal information that they need to be aware of in order to avoid a breach of the Act and possible financial penalty, as well as posing a reputational risk to the individual and organisation.
- 3.3.5 Although all but one of the online forms sampled contained a Fair Processing Notice, there is not currently an overarching statement available on the Website, and this needs to be addressed.
- 3.3.6 It is the overall opinion of the auditor that the DPA & IS system is adequately controlled.

Summary of Recommendations		
High	Medium	Low
1	4	0

4.0 Conclusion

- 4.1 We will continue to monitor and report on our progress at each Audit Committee meeting.
- 4.2 Outstanding audit recommendations are summarised at Appendix 1. Since the last progress report 10 recommendations have been added to SPAR. 24% of all recommendations are overdue compared with 25% at the end 2015/16.
- 4.3 Where there are insurmountable issues making achieving targets impossible then managers needed to bring these issues to the attention of the Chief Executive.
- 4.4 High Priority deadlines may only be extended with the Audit Committee's agreement. 1 has been made so far this year which has not become due yet but 3 became overdue again this time see Appendix 2.

Contact for more Information: Catherine Yandle, Audit Team Leader, x4975

Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: None

Incomplete Audits	Year	Recommendations									Total		
		High			Medium			Low			C	N	O
		C	N	O	C	N	O	C	N	O			
Appraisals & Training	2015		1		7	6			2		7	9	0
Contracts	2014			1						2		0	2
Council Tax/NNDR	2015				4	2					4	2	0
Corporate Health & Safety	2015		1			9			2		0	12	0
Creditors	2014				1		1		1		2	0	1
Creditors	2015				1		2				1	0	2
Customer Care - Complaints	2013				4		1		4		8	0	1
Data Protection	2014	3			2	1	1				5	1	1
Emergency Planning	2015				1		1				1	0	4
FOI	2015		1		1	2					1	3	0
Grants & donations	2015	1									1	0	0
Homelessness	2013						1		2		2	0	1
Housing Benefits	2014				1		1				1	0	1
Housing Rents	2015				3	1	1				3	1	1
Housing Repairs & Maintenance	2014				3	1			2		5	1	0
ICT Core	2014	1			3		2			3	4	0	5
Income & Cash Collection	2015				1	1	2				1	1	2
Insurance	2015				2	1	2			1	2	1	3
Legal Services	2015				2		2				2	0	2
Leisure CVSC	2015				3	3					3	3	0
Main Accounting	2015					1			1		0	2	0
Payroll	2013				2		1		2		4	0	1
Payroll	2014				2		2				2	0	2
Payroll	2015			1	1		3		1		1	1	4
Procurement	2013			1	2	1			2		4	1	1
Procurement	2016					3			2		0	5	0
Recruitment & Selection & JE	2015				6		1		3		9	0	3
Refuse & Recycling	2016					1			1	1	0	2	1
Time Recording	2014				6		3				6	0	3
Tiverton Pannier Market	2014				7		2		2		9	0	2
Trade Waste	2015				1	3	4				1	3	4
Vehicles & Fuel	2015	5			4		3				9	0	3
		10	3	3	70	36	36	20	9	11	100	48	50

CORE

SYSTEM

C = Completed
N = Not yet due
O = Overdue

51%

24%

24%

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Audit Report - High Priority Outstanding Recommendations Appendix 2

Annual report for 2016-2017

Arranged by Service

Filtered by Flag: Include: Audit Recommendations

Filtered by Performance Status: Include Project Status: No Data available,
Milestone Missed, Behind schedule, On / ahead of schedule

Exclude Project Status: Cancelled, Completed and evaluated

Key to Performance Status:

Projects:		No Data available	Milestone Missed	Behind schedule	On / ahead of schedule	Completed and evaluated
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Audit Report - High Priority Outstanding Recommendations Appendix 2

Service: Human Resources	Head of Service: Jill May	Portfolio: n/a
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Projects

Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
Milestone Missed	A - 2015 - P - D1 - H	<p><u>Ensure that a process is agreed as to which documents are scanned onto Aurora Document Storage and a suitable naming convention. - Agreed to meet with the Business Partners to discuss the way forward re scanning/ paper files. Also to look at the document storage and the best way to save to ensure a manageable system for the long term. May be worth speaking to Northgate at the</u></p>	31/12/2015 (due)			

Audit Report - High Priority Outstanding Recommendations Appendix 2

Service: Human Resources **Head of Service: Jill May** **Portfolio: n/a**

Projects

Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
		<u>Healthcheck to identify best way to address the issue as they must have other customers who have been using the system for some time.</u>				

Service: Procurement **Head of Service: Andrew Jarrett** **Portfolio: n/a**

Projects

Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
No Data available	A - 2013 - PC - 1.1 - H	<u>Put contracts in place where spend is over £50,000 in a year in accordance with the Financial Rules.</u>	31/08/2016 (due)	06/11/2015 (overdue)		
On / ahead of schedule	A - 2014 - CON - 2.1 - H	<u>Ensure that the supplier spend monitoring process resumes as soon as possible to ensure that the Council obtains the best prices</u>	31/03/2016 (due)	13/04/2016	New date agreed as 31/08/2016 as per Procurement Audit 2016	

Audit Report - High Priority Outstanding Recommendations Appendix 2

<u>Service: Procurement</u>	Head of Service: Andrew Jarrett	Portfolio: n/a
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Projects						
Project Status	Code	Objective	Project End	Last Review Date	Achieved	Arising
		<u>and value for money.</u>				

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AUDIT COMMITTEE 28 JUNE 2016

CHANGES TO ARRANGEMENTS FOR APPOINTMENT OF EXTERNAL AUDITORS

Cabinet Member Cllr Peter Hare-Scott
Responsible Officer Audit Team Leader, Catherine Yandle

Reason for Report:

1. This report summarises the changes to the arrangements for appointing External Auditors following the closure of the Audit Commission and the end of the transitional arrangements at the conclusion of the 2017/18 audits.
2. The Council will need to consider the options available and put in place new arrangements in time to make a first appointment by 31 December 2017.

RECOMMENDATION(S):

1. Members are requested to consider their preferred approach to:
 - a) Supporting the Local Government Association (LGA) in setting up a national Sector Led Body (SLB).
 - b) Establishing a stand-alone Auditor Panel to make the appointment on behalf of the Council.
 - c) Commencing work on exploring the establishment of local joint procurement arrangements with neighbouring authorities.
2. To note that the section 151 Officer has made a non-binding indication of intent to opt-in.
3. A further report will be brought to Audit Committee on the preferred approach in order that the committee may make a recommendation to Full Council.

Relationship to Corporate Plan: Effective External Audit plays a fundamental role in assisting the Council to deliver its corporate plan.

Financial Implications:

- a) The cost of establishing a local or joint Auditor Panel outlined in options 1 and 2 below will need to be estimated and included in the Council's budget for 2017/18.
- b) Opting-in to a national SLB provides maximum opportunity to limit the extent of any increases by entering in to a large scale collective procurement arrangement and would remove the costs of establishing an auditor panel.
- c) The Council's current external audit fees are £47,700 for 2016/17.

Legal Implications:

- a) Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor. Section 8 provides that where a relevant authority is a local authority operating executive arrangements, the function of appointing a local auditor to audit its accounts is not the responsibility of an executive of the authority under those arrangements;
- b) Section 17 gives the Secretary of State the power to make regulations in relation to an 'appointing person' specified by the Secretary of State. This power has been exercised in the Local Audit (Appointing Person) Regulations 2015 (SI 192) and this gives the Secretary of State the ability to enable a SLB to become the appointing person.

Risk Assessment:

- a) There is no immediate risk to the Council; however, early consideration by the Council of its preferred approach will enable detailed planning to take place so as to achieve successful transition to the new arrangement in a timely and efficient manner.
- b) Providing the LGA with a realistic assessment of our likely way forward will enable the LGA to invest in developing appropriate arrangements to support the Council.

1.0 Introduction

- 1.1 The Local Audit and Accountability Act 2014 brought to a close the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for all local government and NHS bodies in England. On 5 October 2015 the Secretary of State for the Department of Communities and Local Government (DCLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017/18.
- 1.2 The Council's current external auditor is Grant Thornton following closure of the Audit Commission the contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the LGA with delegated authority from the Secretary of State CLG. Over recent years we have benefited from a reduction in fees in the order of 50% compared with historic levels. This has been the result of a combination of factors including new contracts negotiated nationally with the firms of accountants and savings from closure of the Audit Commission.

- 1.3 When the current transitional arrangements come to an end on 31 March 2018 the Council will be able to move to local appointment of the auditor. There are a number of routes by which this can be achieved, each with varying risks and opportunities. Current fees are based on discounted rates offered by the firms in return for substantial market share. When the contracts were last negotiated nationally by the Audit Commission they covered NHS and local government bodies and offered maximum economies of scale.
- 1.4 The scope of the audit will still be specified nationally, the National Audit Office (NAO) is responsible for writing the Code of Audit Practice which all firms appointed to carry out the Council's audit must follow. Not all accounting firms will be eligible to compete for the work, they will need to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council. The registration process has not yet commenced and so the number of firms is not known but it is reasonable to expect that the list of eligible firms may include the top 10 or 12 firms in the country, including our current auditor. It is unlikely that small local independent firms will meet the eligibility criteria.

2.0 Options for local appointment of External Auditors

- 2.1 There are three broad options open to the Council under the Local Audit and Accountability Act 2014 (the Act):

Option 1 To make a stand-alone appointment

- 2.2 In order to make a stand-alone appointment the Council will need to set up an Auditor Panel. The members of the panel must be wholly or a majority independent members as defined by the Act. Independent members for this purpose are independent appointees, this excludes current and former elected members (or officers) and their close families and friends. This means that elected members will not have a majority input to assessing bids and choosing which firm of accountants to award a contract for the Council's external audit. A new independent auditor panel established by the Council will be responsible for selecting the auditor.

Advantages/benefit

- 2.3 Setting up an auditor panel allows the Council to take maximum advantage of the new local appointment regime and have local input to the decision.

Disadvantages/risks

- 2.4 Recruitment and servicing of the Auditor Panel, running the bidding exercise and negotiating the contract is estimated by the LGA to cost in the order of £15,000 plus on going expenses and allowances
- 2.5 The Council will not be able to take advantage of reduced fees that may be available through joint or national procurement contracts.
- 2.6 The assessment of bids and decision on awarding contracts will be taken by independent appointees and not solely by elected members.

Option 2 Set up a Joint Auditor Panel/local joint procurement arrangements

2.7 The Act enables the Council to join with other authorities to establish a joint auditor panel. Again this will need to be constituted of wholly or a majority of independent appointees (members). Further legal advice will be required on the exact constitution of such a panel having regard to the obligations of each Council under the Act and the Council needs to liaise with other local authorities to assess the appetite for such an arrangement. This has been discussed as a possibility by the Devon Audit Group.

Advantages/benefits

2.8 The costs of setting up the panel, running the bidding exercise and negotiating the contract will be shared across a number of authorities.

2.9 There is greater opportunity for negotiating some economies of scale by being able to offer a larger combined contract value to the firms.

Disadvantages/risks

2.10 The decision making body will be further removed from local input, with potentially no input from elected members where a wholly independent auditor panel is used or possibly only one elected member representing each Council, depending on the constitution agreed with the other bodies involved.

2.11 The choice of auditor could be complicated where individual Councils have independence issues. An independence issue occurs where the auditor has recently or is currently carrying out work such as consultancy or advisory work for the Council. Where this occurs some auditors may be prevented from being appointed by the terms of their professional standards. MDDC is not in this position.

Option 3 Opt-in to a sector led body

2.12 In response to the consultation on the new arrangement the LGA successfully lobbied for Councils to be able to 'opt-in' to a SLB appointed by the Secretary of State under the Act. An SLB would have the ability to negotiate contracts with firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector.

Advantages/benefits

2.13 The costs of setting up the appointment arrangements and negotiating fees would be shared across all opt-in authorities

2.14 By offering large contract values the firms would be able to offer better rates and lower fees than are likely to result from local negotiation

2.15 Any conflicts at individual authorities would be managed by the SLB who would have a number of contracted firms to call upon.

2.16 The appointment process would not be ceded to locally appointed independent members. Instead a separate body set up to act in the collective interests of the 'opt-in' authorities.

Disadvantages/risks

- 2.17 Individual elected members will have less opportunity for direct involvement in the appointment process other than through the LGA and/or stakeholder representative groups.
- 2.18 In order for the SLB to be viable and to be placed in the strongest possible negotiating position the SLB will need Councils to indicate their intention to opt-in before final contract prices are known.

3.0 The way forward

- 3.1 The Council have until December 2017 to make an appointment. In practical terms this means one of the options outlined in this report will need to be in place by spring 2017 in order that the contract negotiation process can be carried out during 2017.
- 3.2 The LGA submitted an application to the DCLG on 2 June expressing an interest in being specified as a SLB.

4.0 Conclusion and Next Steps

- 4.1 The Council will need to take action to implement new arrangements for the appointment of external auditors from 1 April 2018. In order that more detailed proposals can be developed the Committee is asked to give early consideration to the preferred approach. However this will not prevent authorities from joining the sector led arrangements in later years.
- 4.2 The LGA will be issuing formal invitations to opt-in to the SLB in September 2016 which have to be open for a minimum of 8 weeks. Therefore a formal recommendation is likely to be made to Full Council at the 20 September Audit committee.

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Circulation of the Report: Management Team and Cllr Peter Hare-Scott

List of Background Papers: None

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